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October 17, 2005

Mr. J. Gregory Cornett
Ogden Newell & Welch, PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

Re: Case No. 2005-00224
Louisville Gas and Electric Company

Dear Mr. Cornett:

Thank you for sending me your proposed Settlement Agreement in this matter. I have consulted with Gerald Wuetcher, our Acting General Counsel, and we would prefer to have the Settlement Agreement in a format which is more familiar to the Commission. I believe that the enclosed Settlement Agreement incorporates all of the terms that you proposed and some additional language that Commission Staff uses in all of our proposed settlement agreements.

Please examine the Settlement Agreement and, if you approve of it, have it executed by appropriate counsel, return it to me, and I will present it to the Commission with the recommendation that it be accepted.

Sincerely,

A handwritten signature in black ink, appearing to read "James R. Goff".

James R. Goff
Staff Attorney

JRG:v
Enclosure

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this ____ day of _____, 2005, by and between Louisville Gas and Electric Company ("LG&E") and the Staff of the Kentucky Public Service Commission ('Commission Staff).

WITNESSETH:

WHEREAS, LG&E is a utility engaged in the generation, transmission and distribution of electricity to the public, subject to jurisdiction of the Kentucky Public Service Commission ("Commission") pursuant to KRS Chapter 278; and

WHEREAS, on April 13, 2005, an incident occurred at LG&E's Cane Run Generating Station in Jefferson County, Kentucky (the "April 13, 2005 Incident"), which the Commission Staff investigated and submitted its Incident Investigation - Staff Report ("Report") on May 12, 2005; and

WHEREAS, on July 8, 2005, the Commission entered an Order initiating Case No. 2005-00224, styled *Louisville Gas and Electric Company: Alleged Failure to Comply with KRS 278.042 and 807 KAR 5:006, Section 24*, and ordering LG&E to show cause why it should not be subject to the penalties of KRS 278.990(1) for the alleged probable violations of the National Electrical Safety Code ("NESC") and the Kentucky Administrative Regulations listed in the Report; and

WHEREAS, in the April 13, 2005 Incident, James M. Murphy, an employee of Ops Plus, Inc., was injured in a fall from a 138 kV breaker while working at the Cane Run Generating Station in Louisville, Kentucky. At the time of the incident, Ops Plus, Inc. was acting within the scope of a contract with LG&E to maintain certain utility plant at the Cane Run facility. At the time, Mr. Murphy was wearing a body harness, but it

was not belted off to a supporting structure. NESC Section 42, rule 420-H requires employees to use personal protective equipment, the protective devices, and the special tools provided for their work. NESC Section 42, Rule 420-K requires that a climber, at elevated locations above 10 feet be attached to equipment or structures by a fall-protection system. 807 KAR 5:006, Section 24, requires each utility to adopt and execute a safety program. LG&E has adopted a Health and Safety Manual (“LG&E Manual”) which describes its safety program for its employees. It is alleged that Mr. Murphy failed to comply with the LG&E Manual, Section A.21; and

WHEREAS, on July 26, 2005, LG&E, by counsel, filed its response to the Report and the Commission’s Order of July 8, 2005, denying that LG&E had willfully violated the NESC or KAR as cited in the Report; and

WHEREAS, on August 16, 2005, LG&E and Commission Staff held an informal conference at the Commission’s offices in which all issues were discussed; and

WHEREAS, LG&E and Commission Staff, the signatories to this Settlement Agreement, negotiated a settlement through compromise resolving all issues surrounding the April 13, 2005 Incident.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the signatories hereby agree as follows:

1. The probable violation of 807 KAR 5:006, Section 24, listed in the Report should be dismissed because LG&E had in effect and was executing a safety program for its employees at the time of the incident, and Mr. Murphy was not an employee of LG&E at the time of the incident.

2. Within 10 days after the entry of an Order approving this Settlement Agreement, LG&E shall pay to the Commonwealth of Kentucky the sum of Four Thousand Five Hundred Dollars (\$4,500) in full satisfaction of any applicable civil fines associated with this proceeding. This payment shall be in the form of a cashier's check made payable to the "Treasurer of the Commonwealth of Kentucky" and shall be mailed or delivered to the Office of General Counsel, Public Service Commission of Kentucky, 211 Sower Boulevard, Post Office Box 615, Frankfort, Kentucky 40602.

3. As part of this Settlement Agreement, LG&E acknowledges and agrees that the number of audits it conducts of the work done by its independent contractors in 2005 will exceed the number of those audits which were conducted in 2004.

4. In addition, as part of this Settlement Agreement, LG&E will engage an outside fall-protection expert to make a presentation on fall-protection safeguards during its next quarterly contractor safety meeting, in October or November 2005, for the purpose of reminding the representatives of its contractors of the importance of utilizing proper fall-protection safety measures.

5. This Settlement Agreement is subject to the acceptance of and approval by the Commission. Following the execution of this Settlement Agreement, Commission Staff will recommend to the Commission that this Settlement Agreement be accepted and approved. If the Commission issues a final Order in which it accepts and approves this Settlement Agreement in its entirety, LG&E hereby waives its right under KRS 278.400 to file an application for rehearing and its right under KRS 278.410 to file a complaint in the Franklin Circuit Court regarding such Order of the Commission.

6. If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be null, void, and withdrawn by the signatories hereto from further consideration by the Commission and none of the signatories shall be bound by any of the provisions herein; and (b) this proceeding shall go forward and neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

7. This Settlement Agreement reflects a compromise resolution of a contested matter. The scope of this proceeding is limited by the Commission's July 8, 2005 Order to whether LG&E should be assessed penalties under KRS 278.990 for willful violations of Commission regulations, including NESC Rules. Neither the payment of the civil penalty, nor any other terms of this Settlement Agreement, shall be construed as an admission by LG&E of a willful violation of any Commission regulation or NESC Rule, nor shall it be construed as an admission by LG&E of any liability in any legal proceeding or lawsuit arising out of the facts set forth in the Report, nor shall the Commission's acceptance of this Settlement Agreement be construed as a finding of a willful violation of any Commission regulation or NESC Rule.

8. This Settlement Agreement shall not be used for any purpose in any subsequent legal or administrative proceeding (other than a proceeding by the Commission to enforce the terms of this Settlement Agreement), and LG&E shall not be precluded or estopped from raising any issue, claim, or defense therein by reason of the execution of this Settlement Agreement.

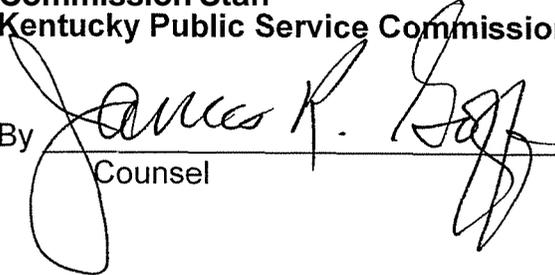
9. LG&E and Commission Staff agree that this Settlement Agreement is reasonable, is in the public interest, and should be adopted in its entirety by the Commission. If so adopted by the Commission, LG&E agrees to waive its right to a formal hearing.

IN WITNESS WHEREOF, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company

By _____
Counsel

**Commission Staff
Kentucky Public Service Commission**

By  _____
Counsel